

# Los Angeles Times

Gov. Pushes Private Works;  
Schwarzenegger says he wants government to partner with firms that would build and run infrastructure projects.

By Michael Rothfield  
November 28, 2007

Gov. Arnold Schwarzenegger on Tuesday signaled a controversial push to engage private companies in the building and management of state and local public works projects, proposing a strategy widely employed in Canada, Europe and elsewhere.

In such partnerships, which could take a variety of forms, private companies could finance, build and manage roads, schools, waste-water treatment plants, ports, levees, hospitals and other projects. The companies would rent the facilities to the government or collect fees from users.

Though public-private partnerships have been undertaken in some other states and occasionally in California, such as in the construction of San Diego's South Bay Expressway, state law does not explicitly authorize or set rules for such deals.

Until now, Schwarzenegger's piecemeal efforts to involve the private sector in state government generally have been opposed by lawmakers and labor unions. But the governor is considering an ambitious proposal that would institutionalize private-sector deals, and would need legislative approval for it.

Schwarzenegger, who has repeatedly criticized the state's failure to maintain its public works, said he would offer more details in his State of the State speech in January. He said California needs \$500 billion in public projects over the next two decades to catch up to, and keep up with, rapid population growth.

"There's not enough money there in the public sector, in the tax base," Schwarzenegger said Tuesday morning at a forum on information technology sponsored by USC. "We could never afford that.

"When you're governor, I think that you have to really be able to look at people in the eyes and say, 'I can guarantee you that in 30, 40 years from now, when you turn on your faucet, there will be water coming out,' " Schwarzenegger said.

The governor's plan also could involve leasing existing state assets, along the lines of his proposal to privatize the lottery to pay for a healthcare overhaul. But aides said sell-offs of state property were not on the governor's immediate agenda.

Advocates say that working with the private sector can benefit the public by shifting the financial risk, and the outlay of money, to businesses. They also argue that although governments let roads, bridges and buildings erode when budgets are tight, private companies will keep them in good repair because they stand to lose too much if they don't.

Opponents contend that giving control of public projects to companies can cost the public more in the end, through increased fees or tolls over the long term or through the possibility that a private partner will go under before completing a job.

"They've generally been bad economics and bad public policy decisions up to now," said Bruce Blanning, an official with Professional Engineers in California Government. "It's not that there's anything wrong with private money. The problem is there's been nobody around from the public interest to make sure that the project is done properly."

He cited the completion of the South Bay Expressway, which was late and over budget, and problems with the 91 Freeway in Orange County.

Schwarzenegger's administration has been crafting a plan that aides say will enable governments to enter into smart deals that would avoid such pitfalls. It would entail the creation of a master agency staffed by finance experts and others to negotiate deals that protect taxpayers' interests.

State officials have been discussing their plans with federal authorities who offer financial incentives for such projects across the country.

"The governor's plan to expand the private sector's role in financing and managing the state's transportation **infrastructure** is a very welcome sign," U.S. Transportation Secretary Mary E. Peters said in a statement Tuesday. "California has always been viewed by the private investment community as the most attractive destination, because the economy is so big."

Schwarzenegger has been studying partnerships in Canada, Britain, Australia and other countries. In Canada, one agency that oversees public-private projects, Partnerships British Columbia, has undertaken 26 projects since its creation in 2002. They include a hospital, bridges and roads with and without tolls, a long-term care facility and a water treatment plant.

Larry Blain, a former banker and the group's chief executive officer, said the province enters deals "where we can transfer risk to the business partners, get competition in the process, get innovation from the private sector."

The governor visited a project in Vancouver, Canada, last summer and touted it as a model for California.

He acknowledged Tuesday that such projects could be a tough sell at home

"Right now, it's such a new concept for our legislators that they're not there yet 100%," the governor said. "They're concerned about it, they're suspicious about it, what it means, and so I

think it will take a bit of time. But I think [in] the next round of **infrastructure** that we're going to do, there will be much more public-private partnerships."

Senate President Pro Tem Don Perata (D-Oakland), however, bristled at the idea of "another bureaucracy" in state government.

"Ask anybody that is trying to build anything, from a hospital to a bridge to a moat, and they will tell you all the hoops that they have to jump through and all the rivers they have to traverse," Perata said. "So adding another agency is not what I would consider the first thing to further the goal."

He said the governor should bring specific projects to the Legislature, private or not, and fund them with the \$42 billion in bond spending that voters approved last fall.

Schwarzenegger, who frequently refers to his business experience in Hollywood, has been tapping the private sector since taking office.

He and his aides have traveled to other countries on trips funded by donors to a tax-exempt foundation. He supplemented the salaries of top aides with donations from campaign contributors, citing political work they did.

But his attempts to introduce privatization in public works through high-occupancy toll lanes, the hiring of private engineers for road projects and the shifting of new government workers to a 401k-style program have gone up in smoke because of opposition from various quarters.

Among the scattered instances of private-public partnerships in California are a courthouse project in Long Beach; investments by the state pension fund in projects outside the state; and the U.S. Navy's privatization over the last six years of all 14,000 housing units for sailors in California.

Those partnerships pale against the potential that some private investors see in California's public works.

Kathleen Brown, a former Democratic state treasurer and candidate for governor who is now an investment banker, praised Schwarzenegger for "an extraordinarily positive and good idea."

"Given the depth of **infrastructure** deficit that we have in this state and in the country," said Brown, who heads the public sector and **infrastructure** group for the Western Region of Goldman Sachs, "policymakers need every tool to reinvest and rebuild."

--